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Empowering families to invest in higher education

Inversant Podcast Series: College (Un)affordability, Student Debt, and Solutions

Podcast Episode 3: Children's Savings Accounts: A Uniquely American Way to Finance Higher Education

Speakers:

- William Elliott, Associate Professor Director of the Center on Assets, Education, and Inclusion (AEDI)– University of Kansas
- Bob Hildreth, Founder and Chair of Board– Inversant
- Charles Desmond, CEO– Inversant

Transcript:

CHARLIE: Good day to everyone who is listening to this podcast. I'm Charlie Desmond, CEO of Inversant. Today Bob is joined by Professor William Elliot, who's an Associate Professor at the University of Kansas and the founder of the Center on Assets, Education, and Inclusion at the KU School of Social Welfare. He's a leading researcher in the field of Children's Savings Accounts and College debt. However, his research interests are broadly focused on public policies related to issues of economic inequality and social development. This podcast will deal with the topics of college affordability and student debt, particularly so as it may play out in the new administration. College equity and opportunity is of profound importance in the country today; your work, Dr. Elliot, has been particularly important because of your well-known reputation and your concerns about whether or not this debt crisis is really fully understood and the implications of it are particularly for low-income students are recognized. Could you frame out what your concerns are, and what your cautionary notes are, about this topic?

WE: Typically, when we think about student debt we ask a particular question that I think fails to address the issue of equity, which I believe to be really important. And that question that has been asked is whether or not a student who goes to college is better off than if they didn't go to college. But I think that this is, again, this is the equity question. The equity question is more along the lines of 'If a student goes to college and finances it with debt, do they do as well as someone who goes to college and doesn't have to finance with debt?', and by asking this question we've been able to run some studies looking at this question, and we're finding out that students with debt, who graduate with

debt, have less net worth, delay buying homes, have less retirement savings, and so on. And so, it seems to suggest that these students aren't doing as well, and so a degree means less. And I think a very interesting body of research that has stemmed out of this is looking at the return on degree for low-income children, I think this is equally important. What the findings suggest is that students who are low-income actually have less income and less net worth later in life. So I think it really raises important questions about the overall equity and utility of using student debt as a way to pay for college. I think it's particularly important within a society in which we think about education as being the great equalizer in the path to mobility in society, and if it is not doing that equally, for everybody, then it's a real problem, and if student debt is helping to increase that inequity than I think there are reasons for thinking about how to change and what alternatives might be.

CD: Yeah, I think that that's a very very excellent framing of the implications of what happens to low-income students who actually complete school with debt. And Bob, I know that you've also weighed in on this topic in a similar thread, particularly so for low-income students who begin college, take out loans, and then for one reason or another have to leave college. Say a few words, if you can, about what the implications of that are, as you see it.

BOB: Thank you, Charlie, and also thank you William for joining Inversant in this conversation. I've come to understand that a dollar of debt is not the same, depending on who owes that debt. So the bigger amounts of $35,000 on average, or the outliers of students who have $100,000 worth of debt is not actually where the default problem lies. Where it lies is with low-income students who have to bear their burden both financially and to a certain extent culturally, coming from areas that are averse to debt. The Federal Reserve has shown that most of the default today is in students who hold $1,000 to $5,000 worth of debt. Seems crazy, but when you look at it, those are the students who are not completing college, and therefore that explains why the debt is so low, and because it's not for year after year, and it's a terrible combination to have any debt and no degree.

WE: And I totally agree with that. And one reason I've focused on college completers is because there seems to be this suggestion, and not from Bob, but from researchers and others, that the problem around debt largely is about non-completers. They are a real problem, as Bob pointed out, but it doesn't mean that there is no other problems. One of the focuses has been on default, as kind of the only outcome that we look at, as to whether or not student debt is important or not. And I think the bigger problem with that is then it leads us to certain kinds of solutions that are about keeping people from defaulting. And what I'm suggesting when I talk about the asset piece, is that it's not only about whether or not students default or not, it's also about long-term wealth inequality and how education, particularly financing it through student debt, might be exasperating that inequality with regard to net worth, and solutions that only focus on default, or define the problem solely as default, will miss out on this other important issue around wealth inequality long-term and the kind of solutions that might be needed to reduce that wealth inequality that's being put into the system through student debt. And I think that what Bob said was 100% accurate, in that these non-completers *are* a real issue and a real problem, it only expands that conversation to include long-term asset problems that also affect those who graduate from college.

BOB: I agree, with William, that oftentimes the argument is framed between those that want to protect student debt at any cost, and economists who see a bigger picture. Those that want to protect student loans often talk about the default rate being low, whereas economists talk about the multifaceted slowdown in the lives of many people who have debt, not just low-income, but middle class, in terms of all the indices of family formation, house and car purchases, this is exacerbated in the future potentially by income-based loans, which kick the debt payments out twenty years, when these same people are all of a sudden worried about how they're going to pay for the finance of their kids.

CD: So I think that there are two excellent points that are being resonated here, on both ends of this spectrum, one, that for low-income students who actually get degrees with debt, there are still challenges and issues that are profoundly important that affect their long-term viability and economic strength, as they go into the future, and on the other

hand, low-income students who drop out of school with debt are also adversely affected by these very same strategies. So the question then that comes out of that, William, is what do you think about how free public education might have an impact on the issues that we're presently talking about? That is, you don't have to take loans, we're going to ensure that if you do the appropriate things, and get your grades in order, you're going to get a freeride when you go into public higher education. How does that resonate with what it is that your research is revealing?

WE: So I think that, you know, I was in the military, and I have a VA card, and any time I go to a store, I'm quick to ask for my 10% discount, right? My point is, everybody likes something that's free. So it's very hard to argue against free. And what I want to talk about is not just what might be better, but what might be best. And so would free be better than our current situation? Most likely. But would it be the best way to go? I'm not as sure. Particularly when we think about low-income students, we see less of a return on degree than their counterparts. Which suggests to us that it's not just about affordability. When we begin to understand one of the problems that we have is we have to find ways to finance education, that makes it affordable, but that it also strengthens return on degree, more equitably for all.

CD: Let's hear, as an alternative, what suggestions would you make that we need to consider as we think about better ways to structure opportunity and access for students, particularly low-income minority youngsters?

WE: What I have suggested more recently is a proposal for Children's Savings Accounts. What are Children's Savings Accounts, first of all? Typically they are accounts that kids start at birth or Kindergarten, and there's usually some kind of an initial deposit to put into those accounts, and sometimes match. And by letting people save early on, they have a chance to build up money for college long-term. Now, I think there are ways of getting to 'free' using these accounts. One is by really raising the initial deposit. I suggest that $8400 into those accounts from birth, and they save until they're 18, and they save $5 per month, we'll have over $34,000 in those accounts if they're in some kind of investment accounts which would be enough to pay for an average four year college. Which does

several things. One is, we know about CSAs and Children's Savings Accounts, when kids start savings early on, they have things like better social and emotional development, parents have higher expectations for their kids. And these types of things are related to better academic outcomes, parents have less stress, we could go on and on, but the point of it is, you begin to tackle some of the issues around preparedness for college, but then you also do something else. And I'll give you a quick example. I used to be poor, and when I would go to buy a car, you sat in that chair trying to negotiate that contract, I knew that I couldn't get credit anywhere else, any more easily. I didn't have any money down, and so I felt powerless at that negotiation table. But now when I go and buy a car, my car's paid off, I know I can get credit anywhere, and so the power dynamic is dramatically changed, and I can negotiate a much better deal. In some ways, by providing kids with money and assets early on, we're helping to address some of these power inequities that exist in society among those who have assets and those who don't.

CD: I'd like to get Bob to chime in on this, because this is really fundamental to what Inversant has been advocating for, for the last seven years. That is, that the idea of the Children's Savings Account, and you've added a layer on top of that as well with regards to the considerations that you've given to bringing parents deeply into the conversation, so maybe if you would to share about that.

BOB: What I like about Children's Savings Accounts is how different they are from scholarships. When you are graduating, you learn about your scholarship award. It has had no effect on changing your behavior previous to that award, whereas the Children's Savings Account which William is recommending *does* have an impact, from the very beginning. Some of these start in, for instance, Kindergarten. We have to remember that the parents are the key actors here. They're the ones who are saving, and they're the ones who have a college aspirational drive for their students, and so that is very important.

WE: Findings suggest that people who save early on are more likely to invest in stocks, bonds, and other things. Research by Emily Rauscher shows that kids who have parents who have saved for their education, even relatively small amounts, have higher income

and wealth later in life. So what we're trying to do is not only make college affordable, but also strengthen the return on degree long-term, tackle some of the issues around wealth equality, and leverage education's capacity to be the equalizer in society.

CD: I just recently stepped down as the chair of the Board of Higher Education for the Commonwealth of Massachusetts, and we've struggled with how to convey to legislators and to elected officials and to private sector players why these investments are so important. It took us two years of just conversations to get folks to realize that investments in these populations were in the long-term best interest of the country, so I think these strategies, as we go further down the road, are going to prove to be very helpful and important to us.

BOB: I think that William's proposal would be a key component to a grand compromise, in that is not a giveaway. Families have to save $5 a month, okay. We know parents can do that, but in order to get it going, we would really need I think a campaign the United States like the war bonds. Which got so many Americans to invest in terms of what they were investing, they were in fact investing a lot more than $5 a month, each family. If you added that, and the people could see that everybody had some stake in the game, that would be a key element.

WE: 13:35 I want to mention one quick study also by the Institute on Assets and Social Policy, Tom Shapiro's camp, for those who are familiar with him, that brings additional evidence to the $8400 piece, in that they find that you can greatly reduce the racial wealth gap if you were to use Children's Savings Accounts and put in initial investments of similar amounts of money into those accounts, you could greatly reduce wealth inequality in society. So my point is, I think we oftentimes have thought about education in a box, but we need to think about education in the grander scheme of things, particularly when we might only have one bite of the apple in making real change in how we finance higher education. And we want to do it in a way that actually brings the best results for all families, to include low-income families.

BOB: What I like about the idea of universally creating accounts is that you've created a mechanism which is with every child having an account, it could be used for multiple

purposes going forward. The government would have a deposit in which they could put money for any number of reasons, depending on what happened to the economy of America.

WE: Not only the government, but once these accounts are put in place, it provides the opportunity for foundations like in Maine where the foundation puts $500 into every kid's account when they're born, so foundations could find ways, or individuals could find ways to put money into these accounts, communities could put money into these accounts, employers could put money into these accounts, and so it's not just about the initial federal government investment, but there's opportunity that as you said Bob, for many other players within whatever mechanism to contribute to kids' lives. And eventually on multiple levels, not just for education, but for solving greater wealth inequality, and for other wealth accumulation types of activities along the way.

CD: We've got a number of pilot projects that we're basically shepherding through the Commonwealth right now, one that's looking at savings accounts with matching capabilities for kids in Kindergarten, one that's going to launch with five cities in the Commonwealth that's going to look at seventh grade match savings accounts. All of these are steps on a ladder that ultimately would lead to projects such as the one that you're talking about, which is a comprehensive, systemic approach, but from a policy perspective, how close do you think we are, and what more do we need to do, in order to win over sufficient support and good will and legislative involvement in order for these projects to move?

WE: You see quite the growth in the programs. Forty-two different locations across the country that have CSAs, according to CFED, and so we see that there are about 313,000 kids served in those accounts. Now New York City announced that they're putting together a large pilot program, so I think a national policy is very important. How close are we? I think we're closer than many people might think, because I think it *has* bipartisan support, and in the end, I do think it's a uniquely American idea on how to finance higher education. And the more people understand it as fitting into their current value system, that it requires accountability, but at the same time recognizes the role the

federal government can play and in these investments and it already plays, in investing in higher education and solving mobility and long-term wealth inequality will move farther and farther down that line. So I don't think it's that far off, and it has a certain amount of bipartisan appeal, as well.

CD: We do have a new administration, they're not set in their ways obviously, there have been counter positions taken on just about every major topic, which may, if you think about this particular issue, that the receptivity to something that was out of the box and different and might give a different approach to this problem, might get some traction, and to the best of your knowledge in the circles that you travel in, have you found any inclinations or any indicators that there might be some receptivity towards these types of issues?

WE: I think it is an issue of college debt, that both the Trump presidency and others, so, say, Democrats, have shown interest, whether it be Hillary's campaign or Sanders' campaign, or whoever's had talked about debt and refinancing higher education, Trump proposed going more to income-based repayment plan types of approaches, but those have come under a fair amount of scrutiny as of late, so I think he wants some flexibility, I don't think he's so wedded to that idea, that he couldn't shift from that, but the point is that he's recognizing it as part of his platform and spell out some policy around solving the issue of student debt and the high cost of education.

BOB: I agree, and in fact, a Child Savings Account program could fit well into these other programs. It would be a very attractive number for the policymakers to show that the families are doing their part and that this money also goes to college. Back to Trump, I'm concerned when you put the whole thing together, I think this is really the first time when an administration is going to say they are specific constraints on the increase in student debt and grant levels.

WE: Well absolutely. I want to backtrack on one thing, and say it's one of the reasons why I think it's very dangerous to, at a national level, just put plumbing in place, just give everyone an account but put no money into those accounts, because if at the same time they're taking away other forms of higher education financing, it could create a

really bad problem for affordability of college. There is a group within the Children's Savings Account field, who think that we should just get the plumbing in place, you know sometimes down the road we'll get water in the plumbing and put more money in those accounts, and I'm very much leery of that strain of thought because we have a history of creating policies and then not funding them later on. And then in an environment in which other programs might be under attack and receiving less money, and maybe justifying some of that by the fact that we put in a Children's Savings Account program is dangerous, and so I think either all or nothing, put the money in the account at the same time you create the plumbing.

BOB: I think you not only need the money, but you need to engender parental engagement through education and what we have at Inversant of monthly Savings Circles, where they learn about the college process and the finance process. To get savings going, it's been very important to gather families into savings communities, which almost form naturally in the middle class, but do not form in our urban centers, and I think if you want to get that $5 a month savings, you're going to have to bring families together, I know that makes this a harder pull, but I don't think you can get away from the actual necessity of it.

CD: If I could just footnote that to say that again, your research, and the metrics and data that you're producing, are so helpful to this conversation that we're having, because right now in the environment that we're dealing with, whether it's in the philanthropic world or in the government sector, people are looking for evidence-based solutions and strategies and I want to know what's the research telling us, what have we learned from what's been going on in the field, and who are the people who are doing the research that can help us better understand what it is that we're doing, and how we can respond to it. At this time we're coming pretty much close to the end of our conversation, so I should get to that point first of all by saying thank you very much for your thoughtful, insightful, and helpful suggestions and insights, and the great work that you're doing at your institution, and I think they're very lucky to have you on board doing the work that you're doing, and it will affect many many many lives in the country.

BOB: Thank you for what you do, and we will do it together.

WE: Appreciate the opportunity, it's been great to be on.

CD: Today we were joined by Professor William Elliot, who's an Associate Professor at the University of Kansas and the founder of the Center on Assets, Education, and Inclusion at the KU School of Social Welfare. Please stay tuned for more Inversant podcasts.